Nairobi's Hospitality Sector Report

"*Towards Resilient Growth*"

December 2017

Table of Contents

I. Introduction to Cytonn Investments

What We Stand For

Our Mission

We deliver innovative & differentiated financial solutions that speak to our clients' needs

Our Vision

To be Africa's leading investment manager by consistently exceeding clients' expectations

Our Values

People
Passionate and self-driven people who thrive in a team context

Excellence
Delivering the best at all times

Client Focus
Putting clients' interest first at all times

Entrepreneurship
Using innovation and creativity to deliver differentiated financial solutions

Accountability
We take both corporate and personal responsibility for our actions

Integrity
Doing the right things

Strategy is straightforward – just pick a general direction and implement like hell

— Jack Welch

About Us

Cytonn Investments Management Plc is an alternative investment manager with presence in East Africa, Finland and the US. We provide investors with exposure to the high growth East Africa region. Our investors include global and local institutional investors, individual high net-worth investors and the diaspora. We also service retail investors through our Cytonn Co-operative

82 bn Over Kshs. 82 billion worth of projects under mandate

5 Five offices across 2 continents

250 Over 250 staff members

10 10 investment ready projects

A unique franchise differentiated by:

Independence & Investor Focus

Focused on serving the interest of clients, which is best done on an independent platform to minimize conflicts of interest

Alternative Investments

Specialized focus on alternative assets - Real Estate, Private Equity, and Structured Solutions

Strong Alignment

Every staff member is an owner in the firm. When clients do well, the firm does well; and when the firm does well, staff do well

Committed Partners

Strong global and local partnerships in financing, land and development affiliate

Cytonn REAL ESTATE

Why We Exist

Africa presents an attractive investment opportunity for investors seeking attractive and long-term returns. Despite the alternative markets in Africa having high and stable returns, only a few institutional players serve the market. Cytonn is focused on delivering higher returns in the alternative markets, while providing the best client service and always protecting our clients' interests.

WE SERVE FOUR MAIN CLIENTS SEGMENTS:

- Retail segment through Cytonn Co-operative membership
- High Net-worth Individuals through Cytonn Private Wealth
- East Africans in the Diaspora through Cytonn Diaspora
- Global and Local Institutional clients

WE INVEST OUR CLIENT FUNDS IN:

- Real Estate
- Private Equity
- Fixed Income Structured Solutions
- Equities Structured Solutions

We collect funds from our clients

We invest them in high growth opportunities

We deliver the best possible returns

Cytonn REAL ESTATE

Our Business

Where We Operate

Our Business Lines

Investments

Alternative investment manager focused on private equity and real estate

Real Estate

We develop institutional grade real estate projects for investors

Diaspora

We connect East Africans in the diaspora to attractive investment opportunities in the region

Technology

We deliver world-class financial technology solutions

Co-operative

Provides access to attractive alternative investment opportunities for members

Our Solutions

To unearth the attractive opportunity that exists in alternative markets in Africa, we offer differentiated investment solutions in four main areas:

HIGH YIELD SOLUTIONS

Our expertise in the alternative markets enables us to offer investors high yielding investments. Our robust credit analysis coupled with our quick dealing capabilities, our extensive research coverage and our innovative structuring helps to ensure consistent and above market returns to investors.

REAL ESTATE INVESTMENT SOLUTIONS

Our comprehensive real estate capabilities enable us to find, evaluate, structure and deliver world-class real estate investment products to our investors in the East African region. Our capabilities include fundraising, market research and acquisition, concept design, project management and agency and facility management.

PRIVATE REGULAR INVESTMENT SOLUTIONS

Attractive returns in the alternative segments have typically been accessible to institutional and high net-worth investors. Our regular investment solutions provide access to the alternative investments to members of the Cytonn Co-operative.

PRIVATE EQUITY

We seek to unearth value by identifying potential companies and growing them through capital provision, partnering with management to drive strategy and institutionalizing their processes. Our areas of focus are Financial Services, Education, Renewable Energy and Technology Sectors.

Our Products

We serve three main types of clients namely, high net-worth individuals, institutions and retail, each with diverse needs. Below are the suitability criteria for the various products.

	INSTITUTIONAL CLIENTS	HIGH NET WORTH INDIVIDUALS (HNWI)	RETAIL CLIENTS
Cash Management Solutions	●	●	
Regular Investment Plan • Education Investment Plan • Regular Investment Solution • Co-op Premier Investment Plan • Land Investment Plan	●	●	●
Real Estate Development • Real Estate Developments • Sharpland	●	●	●

Our People

If you could get all the people in an organization rowing the same direction, you could dominate any industry, in any market, against any competition, at any time.

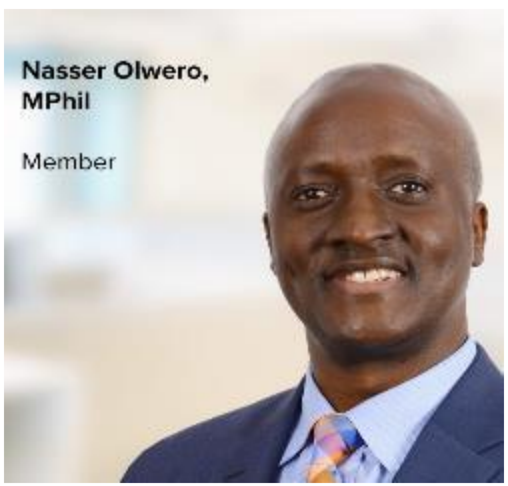
— Patrick Lencioni

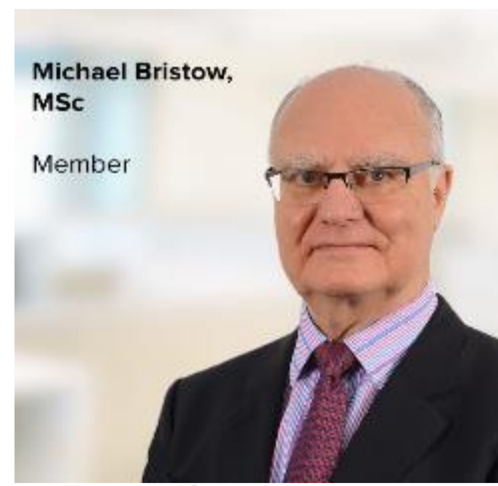
We are focused on one agenda:

THE CLIENT

Board of Directors

To ensure that we remain focused on the clients' interests, we have put in place proper governance structures. We have a board of directors consisting of 11 members from diverse backgrounds, each bringing in unique skill-sets to the firm.





Board of Directors, continued …

Governance Committees

We have four main board committees to ensure all of Cytonn's functions are done in a fair and transparent manner:

Investments and Strategy Committee

The committee oversees and provides strategic investment direction, including the implementation and monitoring process. The members are:-

- James Maina (Chair)
- Antti-Jussi Ahveninen, MSc
- Madhav Bhalla, LLB
- Edwin H. Dande, MBA
- Elizabeth Nkukuu,CFA

Audit, Risk and Compliance Committee

The committee establishes and oversees risk and compliance, including the implementation and monitoring process. The members are:-

- Madhav Bhalla, LLB (Chair)
- Nasser Olwero, Mphil
- Madhav Bhandari, MBA
- Dr. Nancy Asiko Onyango, DBA
- Patricia N. Wanjama, CPS

Governance, Human Resources and Compensation Committee

The committee establishes, oversees and implements governance structure, human resource policies and firm wide compensations. The members are:-

- Antti-Jussi Ahveninen, MSc (Chair)
- Prof. Daniel Mugendi Njiru, PhD
- Michael Bristow, MSc (Chair)
- Edwin H. Dande, MBA

Technology and Innovation Committee

The committee establishes, oversees and implements technical expertise and innovative processes as a driver towards competitiveness. The members are:-

- Nasser Olwero, Mphil (Chair)
- Michael Bristow, MSc
- Patricia N. Wanjama, CPS

II. Overview of Real Estate in Kenya

Real Estate in Kenya

Real estate sector expected to continue growing on the back of sustained GDP growth, high returns over the last 5 years and government incentives to boost real estate investment especially in the residential sector

Macro-economic Contribution

- The real estate and construction sector contributed to 13.8% of Kenya's GDP in 2016 and has been improving from 12.6% recorded in 2010. This is according to the KNBS Economic Survey 2017
- A relatively stable political environment, as well as favourable macroeconomic conditions leading to sustained GDP Growth and a stable exchange rate have led to positive development in the sector

High Returns

- Real estate has consistently out performed other asset classes in the last 5-years, generating returns of over 25% p.a., compared to an average of 10% p.a. in the traditional asset classes
- Residential units in Kenya in the last five years have generated an average rental yield of 5.0%, while office and retail space have generated average yields of 9.0% p.a and 10.0% p.a, respectively

Recent Developments

- The real estate sector has seen entry of more institutional developers such as Saccos, private equity firms and funds such as Taaleri and Actis and foreign institutions such as AVIC of China
- Government initiatives such as digitising of the lands ministry, issuing of title deeds, waiving of the NCA, NEMA and title searching fees as well as a 15% tax cut for large scale developers are creating a conducive investment climate for real estate investment and lowering construction costs

Market Outlook

- We expect continued growth in Real Estate sector on the back of improved macroeconomic conditions, sustainable high returns, and a changing operational landscape as developers strive to satisfy the high housing deficit
- Key challenges include: high land and infrastructure development costs and in 2017 the political environment poses a challenge with investors adopting a wait and see attitude and hence reducing transactions volume in the industry

III. Overview of Hospitality in Kenya

Overview of Hospitality in Kenya

International arrivals grew by 13.4% in 2016 and are projected to grow by 6.2% in 2017

- Kenya's hospitality sector is a vibrant industry driven by demand for 4 main components;
    a) Accommodation
    b) Foods and Beverages
    c) Meetings and Conferencing Space
    d) Leisure and entertainment
- Demand from both local and international visitors has seen global and local investors jostle for a market share of the industry
- Following declined performance between 2011 and 2015 due to security risks posed by terrorism, the sector showed signs of recovery in 2016 with a 13.4% growth in international arrivals and increase in bed occupancy to 30.3% from 29.1% in 2015
- During H1'17, the sector was on an upward trend with a 12.6% growth in international arrivals and a 0.1% points increase in accommodation and food services to GDP
- In August, however, there was a 0.07% decline in international arrivals attributed to political tensions over the elections. Following the extended politicking period, we project a 6.2% growth in international arrivals in 2017 slower than 13.5% recorded in 2016, and average bed occupancy of 28.8%, lower than 30.3% in 2016

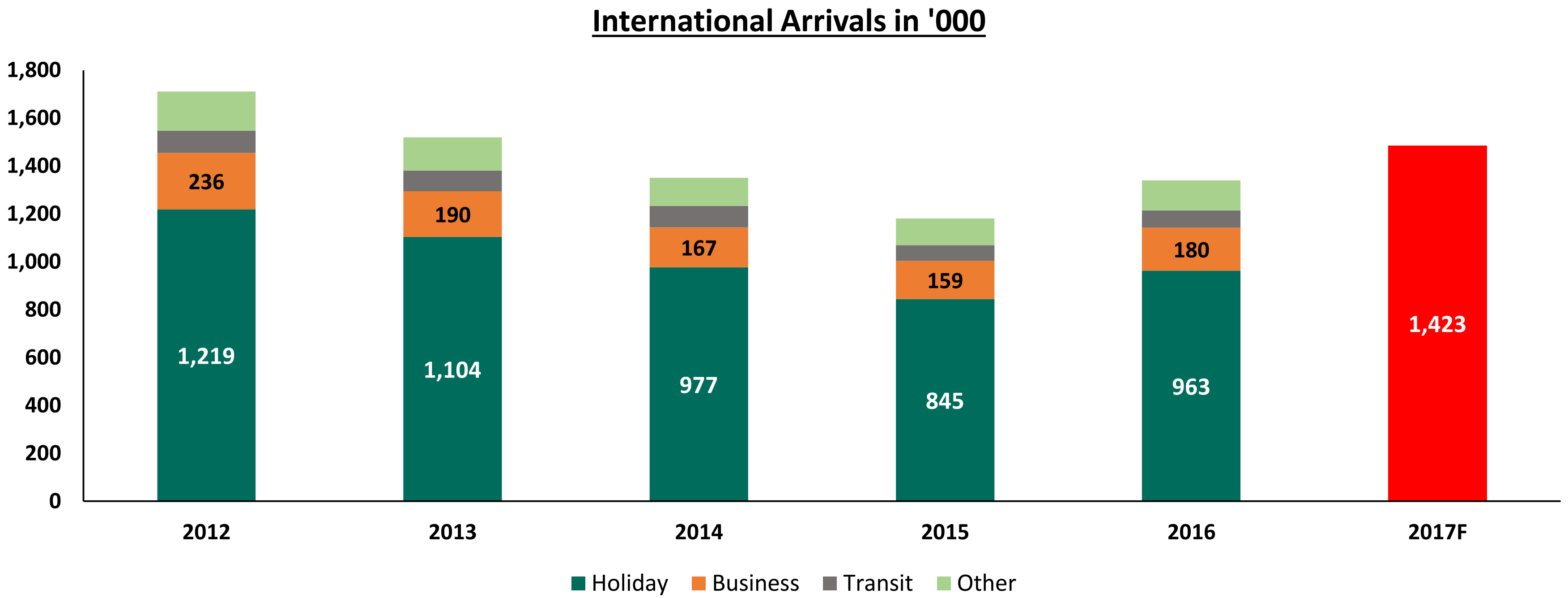
Factor	2011	2012	2013	2014	2015	2016	2017F	2015/16	2016/17F
Accommodation and food services contribution to GDP	1.6%	1.6%	1.4%	1.1%	1.1%	1.14%	**1.15%**	**0.00%**	**0.02%**
Growth of GDP from Accomodation and food services	4.1%	3.1%	(4.6%)	(16.7%)	(1.3%)	13.3%	**6.3%**	**14.6%**	**(7.0%)**
International Visitor arrivals ('000)	1,823	1,711	1,520	1,350	1,181	1,340	**1,423**	**13.5%**	**6.2%**
Tourism Earnings (Kshs bn)	97.9	96.0	94.0	87.1	84.6	99.7	**103.9**	**17.8%**	**4.2%**
Bed-Night Occupancy Rate	40.3%	36.4%	36.1%	31.6%	29.1%	30.3%	**28.8%**	**1.2%**	**(1.5%)**
International Arrivals for Holiday	72.4%	71.3%	72.6%	72.3%	71.6%	71.9%	**72.0%**	**0.3%**	**0.2%**
International Arrivals for Business	12.7%	13.8%	12.5%	12.4%	13.4%	13.4%	**13.0%**	**0.0%**	**(0.4%)**

* *GDP at constant 2009 prices*

Source: KNBS Survey 2016, Cytonn Research

Overview of Hospitality in Kenya: International Demand

72% of international arrivals into the country in the last 5 years were for holiday purposes

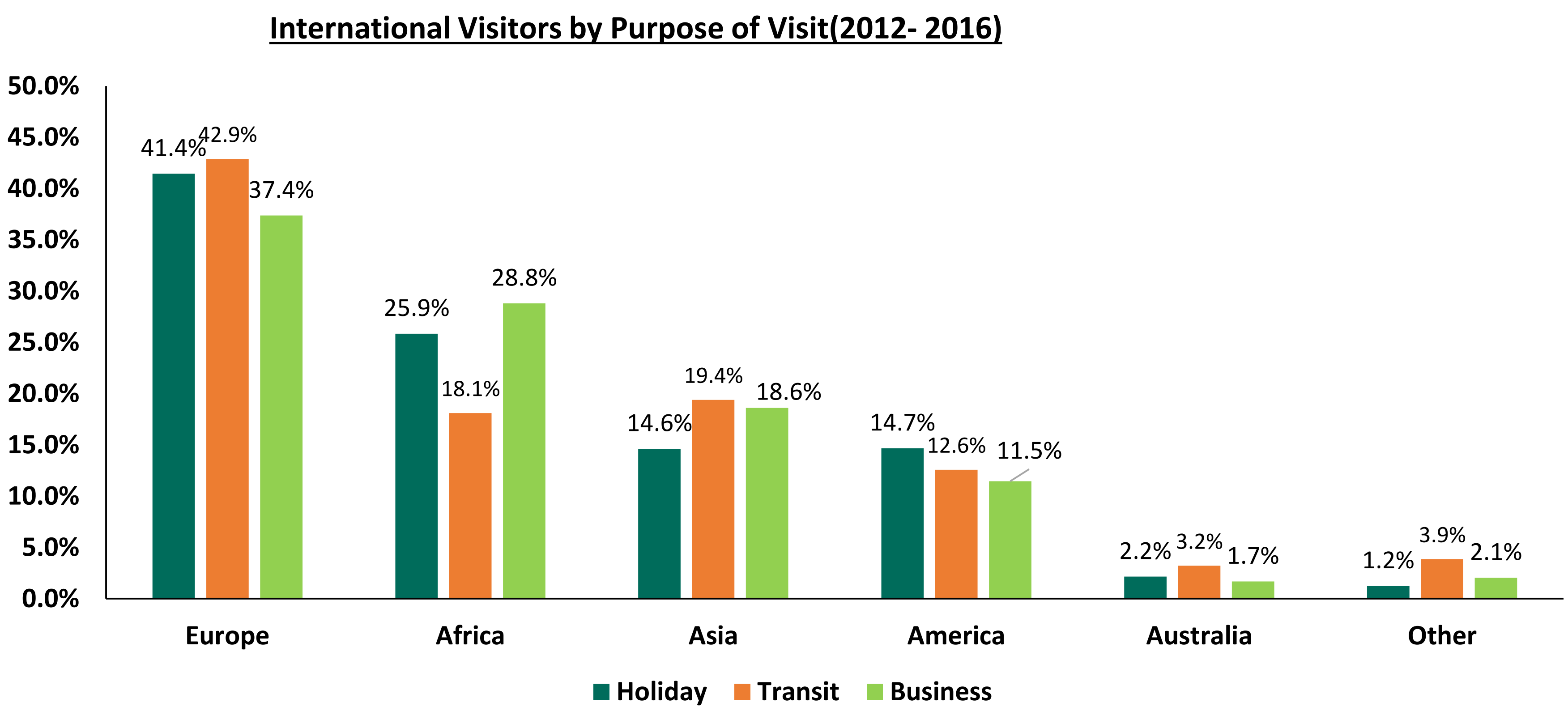


- The number of international arrivals recorded a gradual decline from 2012 to 2015, but are observed to have increased in 2016 with the numbers visiting the country for holidays being the highest, followed by those visiting for business purposes
- In 2016, holiday travelers were 72% compared to business, transit and other travelers at 13%, 5% and 9% respectively
- In 2017, we project a 6.2% growth in the number of international arrivals to 1.4 mn persons mainly backed by improved security and marketing by the government with growth mainly recorded during the Jan-July period

Source: KNBS Survey 2016, Cytonn Research

Overview of Hospitality in Kenya: International Demand

The highest number of international visitors are from Europe mainly on transit and holiday

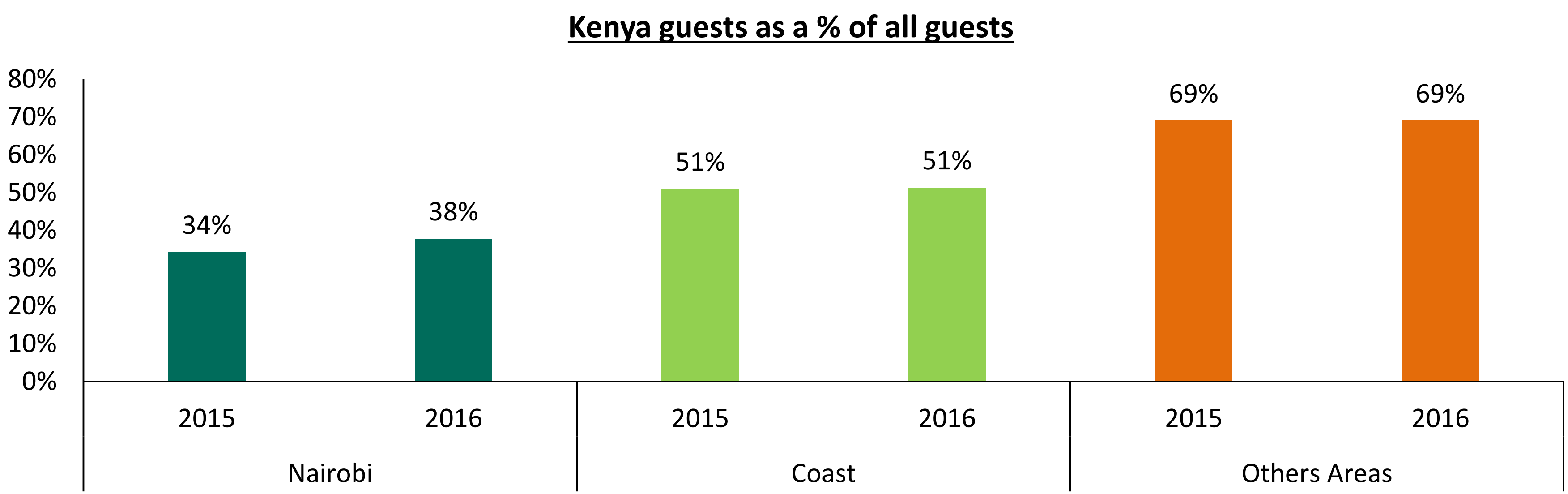


- The highest number of international visitors are from Europe, mainly on transit and for holiday
- Visitors from Africa also record relatively high numbers, with most of them visiting the country for business

Source: KNBS Survey 2016

Overview of Hospitality in Kenya: Local Demand

The number of Kenyan guests in Nairobi Hotels increased from 34% in 2015 to 38% in 2016



- The number of Kenyan guests slightly increased form 2015 to 2016
- In 2016, guests from Nairobi were 38%, an increase from 34% in 2015 while those from the coast were 51% in both 2015 and 2016
- The number of Kenyan guests from other parts of the country, other than Nairobi and the coast, remained constant at 69% in both 2015 and 2016
- It is evident that Kenyans are a significant market for the Coast making up over 50% of the number of the total guests while international guests are the main occupants in Nairobi

Source: KNBS Survey 2016

Overview of Hospitality in Kenya: Drivers

The recovery of travel tourism and growth of domestic tourism have positively impacted hospitality

Factor	Characteristics
Travel Tourism	• Holiday travelers are they main drivers of Kenya's hospitality sector accounting for 71.9% of international arrivals over the last 5-years attracted mostly by key attractions such as wildlife, coastal beaches and natural sceneries. Between 2015 and 2016, holiday travelers increased by 13.9% to 1.0mn from 0.8 mn persons in 2015
Business Tourism & MICE	• The number of business travelers account for 13.1% of international arrivals in Kenya over the last 5 years grew by 13.5% between 2015 and 2016. The number of conferences held in the country increased by 16.5% in 2016 compared to a 3.0% increase in 2015. The growth is mainly due to Nairobi's recognition as a regional hub
Domestic Tourism	• Domestic tourism has grown with Kenyans accounting for 54.2% of total bed nights in 2016 compared to 53.7% in 2015 and 46.9% recorded in 2014
Improved Security	• Improved security led to lifting of negative travel advisories and restoration of confidence in Kenya as a tourist destination leading to improvement in overall performance in 2016 compared to the period between 2013 and 2015
Aggressive Marketing	• Continuous marketing by Kenya Tourism Board has helped restore confidence among key international markets such as Europe, USA as well as in new emerging markets in Africa and Asia. According to the World Travel and Tourism Council's (WTTC) 2017 report, the Kenyan Government increased spending on the sector by 93.4% from KES 31.9 bn in 2010 to KES 61.7bn in 2016, thus, affirming its purpose to support growth in the sector
Travel & Tourism Incentives	• The Government has issued travel and tourism incentives such as removal of Value Added Tax (VAT) Charges on National Park fees, capping of Kenya Wildlife Services (KWS) Park fees at USD 60 down from USD 90 and scrapping of visa fees for children under the age of 16 years which seek to improve tourism

Overview of Hospitality in Kenya: Challenges

Political head-winds, competition and increasing supply are the main challenges in hospitality

Factor	Characteristics
Political Headwinds	• The number of visitor arriving through JKIA and MIA decreased by 7.4% in August 2017 despite of having increased by 12.6% between January and July 2017 • The observed decrease is attributed to the recent political impasse over the presidential elections which lead to either cancelled or postponement of visits by tourists into the country
Competition	• Arrival of international hotel brands which have set up in the same geographic areas such as Best Westerns, Pullman and Park-In all settling in Westlands has lead to increased competition in the same market suburbs • Increased use of serviced apartments also continue to pose competition to hotels due to their affordability and their suitability for both short to mid-term stays
Travel Advisories	• Foreign governments issue negative travel advisories during times of political and social disturbance such as terrorist activities and elections thus resulting in post-ponement of planned visits and visiting tourists avoiding some areas where disturbances are recorded
Increasing Supply	• The number of hotels rooms and serviced apartment in Kenya has been increasing at 3.8% and 23.6% between 2011 and 2015 creating a large bed capacity • Kenya has an annual bed capacity of 21.3 mn whereas the total occupied were 6.4 mn reaching a 30.3% bed occupancy rate. While this is an improvement from 29.1% recorded in 2015, it is generally a decline from 36.4% and 36.1% bed occupancy in 2012 and 2013, respectively

Cytonn REAL ESTATE

Overview of Hospitality in Kenya: Recent Developments

Government incentives and infrastructural developments are likely to boost the hospitality sector

Recent Developments in the Tourism & Hospitality	
Scraping of Park Taxes	• Starting 1st Feb 2016, VAT charges on National Park fees were scraped and KWS Park fees were capped at USD 60 (down from USD 90) to boost both domestic and international tourism
Scrapping of Landing Fees	• The government scrapped landing fees for chartered planes at Mombasa and Malindi International Airports from January 2016 to June 2018
Subsidies of USD 30	• A subsidy of USD 30 was given for every passenger disembarking in Kenya
Scrapping of Visa Fees for Under 16 childen	• Starting 1st Feb 2016, visa fees for children under 16 were scrapped
Infrastructural Developments	• There are plans to expand the JKIA and Malindi airports so they can handle more visitors • Construction of Port – Reitz Mombasa Road and the Dongo – Kundu Bypass that will allow tourists to travel to the South Coast (Diani) without using the ferry, is on-going • Kenya Ferry Service intends to buy two new ferries for the Likoni Channel crossing at the Coast
Technological Advancement	• Technological enhancement through implementation of e-visa application system since 2015 has enabled easy application and payment online and not at entry point at the airport as was before
Marketing to Eastern Countries	• As at 2016, only 15.6% of international arrivals were from Asia compared to Europe at 40.9%. Kenya is therefore increasingly targeting Asian markets such as China and India to boost the sector

Overview of Hospitality in Kenya: Trends in the Sector

International hotel chains are increasing their market stake with opening of more hotels in Kenya

i. **Fractional home ownership and time share**

- Fractional home ownership involves multiple buyers purchasing a vacation home or resort and allocate usage rights based on time. When none of the owners is using the resort, they let it out and receive rent revenue
- These are popular in the Rift Valley, the Mount Kenya region and the Coastal region eg at Aberdare resort

ii. **Increasing of Market Stake by International Hotel Chains**

- The hotels sector has continued to attract international hotel chain companies as they seek to expand and secure market share in the sector either through full right branding or renovation of available facilities to enhance capacity.
- Hotel chains such as Radisson and Marriot have opened hotel outlets over the year and set to open more hotels in Nairobi. Ramada and Mövenpick are amongst the international brands scheduled to open additional hotels in Kenya during the next five years

iii. **Improved Hotelier Service Standards**

- In November 2016, eight hotels including, Dusit D2, Radisson Blu Hotel and Tribe Hotel among others secured 5-star ratings through Gazette Notice No 9591 by the Tourism Regulatory Authority
- This affirms the efforts put in place by various players in the hospitality sector to delivery high quality services of global standards

Overview of Hospitality in Kenya: Trends in the Sector

Dual branding is one of the current trends in the hospitality sector

iv. Dual Branding

- This is being carried out to enhance operational efficiency by combining different hotel uses e.g serviced apartments and hotels in one building, and sharing facilities such as parking, lobby, gym and fitness facilities. This has been done at Yaya Hotel & Apartments in Kilimani and will be seen in projects that are under construction eg Ole Sereni expansion and Avic Towers in Westlands both of which will have serviced apartments and hotels

v. MICE(Meetings, Incentives, Conference & Exhibitions)

- Both local and international conferences increased by 17.4% and 4.1%, respectively from 2015 to 2016 faster than the 5-year y/y average change of 5.2% and (-5.5%), respectively from 2012 to 2016 highlighting the increasing demand for conference facilities in the country
- MICE hospitality is mainly driven by local conferences and delegates accounting for 94.3% of all conferences held in 2016
- Growth in MICE is attributed to improved security, holding of high-profile conferences which increases international confidence in Nairobi as a conference centre and devolution that has resulted in the increase in number of conferences and meetings held at the county levels

IV. Nairobi Hospitality Report

Executive Summary

Nairobi hotel sector recorded a decline in 2017 with ADR decreasing by 6.9% and room occupancy dropping to 49%, due to political tension during the electioneering period

- We carried out a research on the hotels and serviced apartments in Nairobi so as to inform on the trends in the industry pertaining to supply, demand, occupancy and revenues and thereafter to identify the opportunities
- From our findings, as of 2017, Nairobi has at least 4,675 top-rated hotel rooms and more than 4,000 serviced apartments with a deal pipeline of at least 2,945 hotel rooms and 1,260 serviced apartments set be complete in the next 5 years
- In Nairobi, the CBD and Westlands have the highest top-rated hotel room supply at 25.8% and 19.6% market share, respectively. However, Westlands will have the largest supply in the next 5 years with 5 hotels currently under construction
- On performance, following a period of stability in 2016, the sector in 2017 recorded a decline in ADR by 6.9% to Kshs 12,952 per room sold from Kshs 13,909 in 2016 while room occupancy declined to 49% from 53% in 2016. The declined performance is mainly attributed to political instability which resulted in reduced demand, the effects of the depreciation of the Kenya shilling to the dollar, as well as increased room supply during the period
- The sector is however expected to recover following conclusion of the elections given the upward trend noted in 2016 and during H1'2017
- 4-star hotels in Nairobi were the best performing with an average occupancy of 56.6% in 2017 compared to 3-star and 5-star hotels with 49.4% and 46.0% , respectively
- For serviced apartments, Westlands and Kilimani have the highest supply with 40.4% and 25.9% of the Nairobi market share, respectively
- Despite the high supply, they are the best performing nodes with yields of 7.3% and 7.2% , respectively above the market average of 5.8% rental yield. This is because they are both prime commercial hubs, within the UN Blue zone and with social amenities, making the suitable for expatriate living and thus retaining high occupancy of above 78%

Nairobi's Hospitality Report Theme- "Towards Resilient Growth"

Performance in 2017 has been on a decline due to the effects of the election but is expected to pick up in 2018 given increased local and international demand for travel and business tourism products

Value Area	Summary	Effect on The Hospitality Market
Demand	• In 2016 there was 13.4% growth in international arrivals and room occupancy in Nairobi remained stable at 53% • In 2017, there has been a decline in demand with 49% room occupancy attributable to the extended electioneering period	• Increased demand for hotel services resulted in improved performance in 2016 and restored confidence in the sector and has resulted in increased hotel & serviced apartments supply with at least 4,675 hotel rooms and 1,260 serviced apartments in the pipeline • The decline in 2017 is only a temporary phase and expected to reverse following the elections conclusion
Supply	• The hotel supply in Nairobi has been rising with a 3.7% 5-year CAGR of top-rated hotel rooms available and a 4.1% 5-yeas CAGR of standard hotel rooms available • Serviced apartments grew by 23.6% between 2011 and 2015	• This has led to increased supply of quality hotel services in Nairobi making it a leading destination for tourists and business travellers • It has also resulted in increased competition and thus hotel occupancies remained unchanged in 2016 from 2015 and reduced occupancy in 2017 declined despite increased international arrivals
Performance	• Hotel Room Occupancy declined in 2017 to 49% following stable performance in 2015 and 2016 at 53% • Westlands and Kilimani were the best performing locations for serviced apartments with 7.3% and 7.2% yields, respectively and occupancy above 78%	• The decline in 2017 is only temporary and investors are optimistic, thus we have seen the kicking off of various hotel & serviced projects in Nairobi in 2017 • There is also increased interest from global brands who are seeking to increase their market share in Nairobi including Ramada and Movenpick

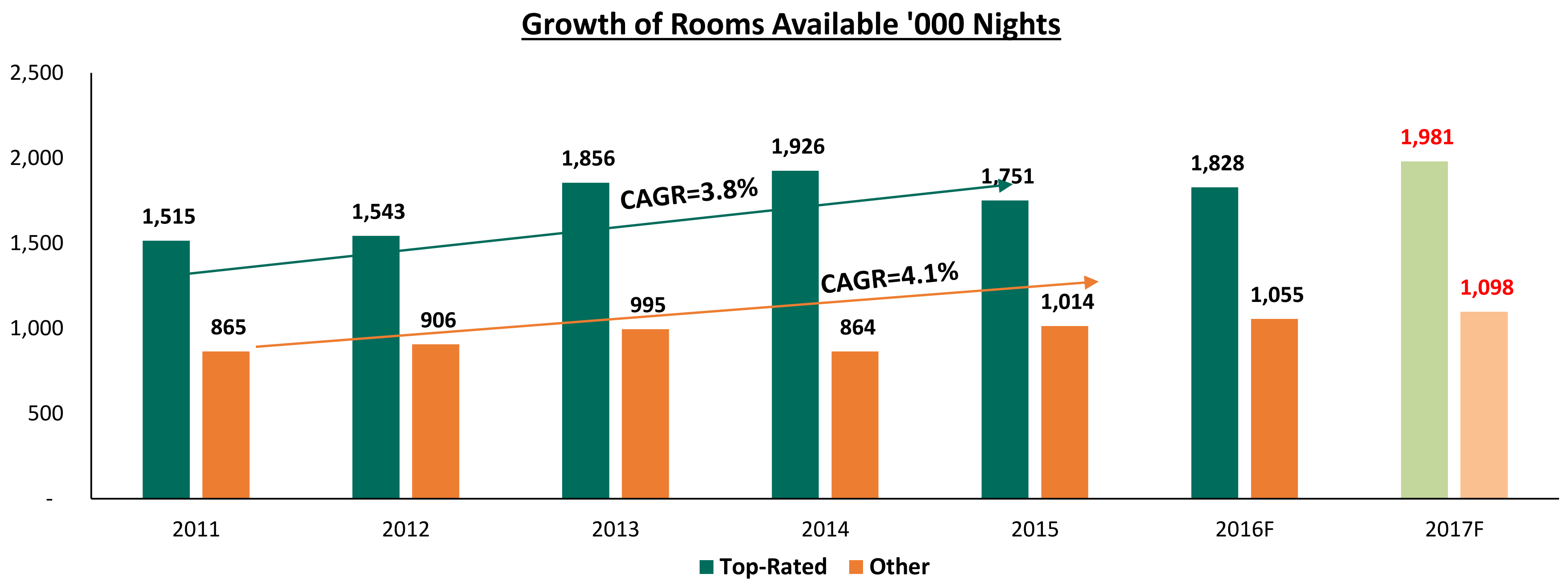
The hospitality market is expected to recover in 2018 following the conclusion of the elections

A). Hotels in Nairobi

i). Hotel Supply in Nairobi

Hotel Supply in Nairobi

Top-rated hotel rooms in Nairobi had a 3.8% CAGR between 2011 and 2015



- Top-rated hotel rooms available have been growing at 3.7% p.a while standard hotels rooms available have been growing at 4.1% p.a
- In 2017, we project 1.9 mn available room nights for top-rated hotels through opening of hotels such as Golden Tulip and Ibis styles in 2016 and Lazizi Premiere, Park Inn and Four Points by Sheraton in 2017
- In Nairobi, top-rated hotels have a higher supply at 64.3% compared to standard hotels at 35.7%. Between 2015 and 2016, top-rated hotel room supply grew at 4.4% while standard hotels room supply grew by 4.1% indicating faster growth of quality hotels in Nairobi

Source: KNBS, Cytonn Research

Hotel Supply in Nairobi

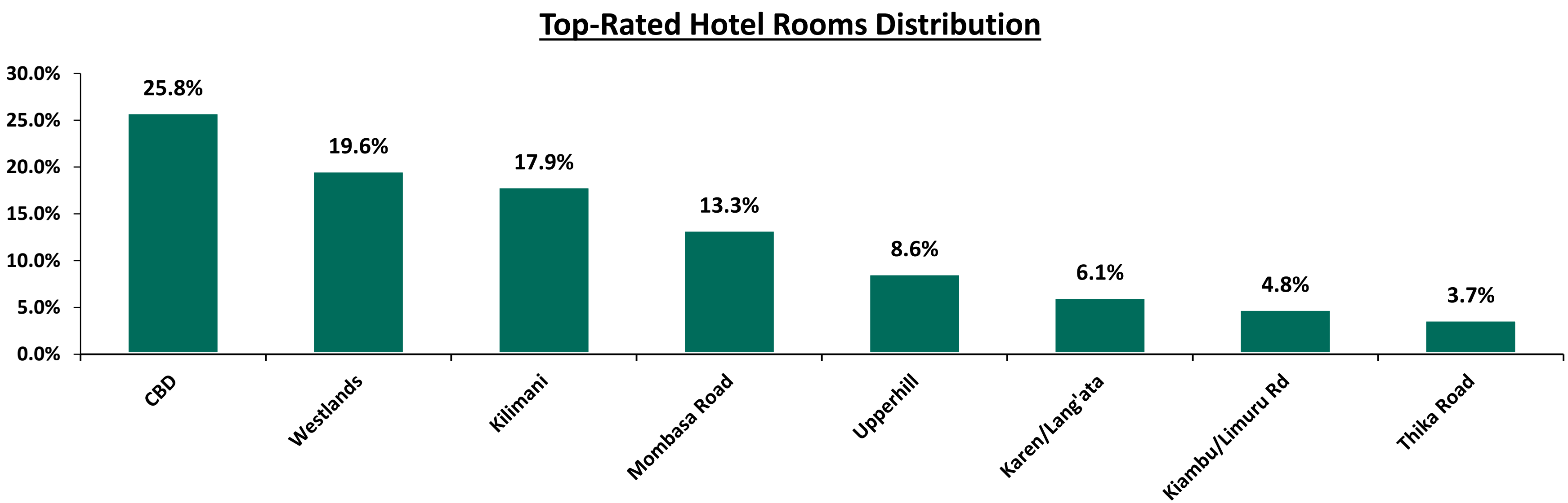
Nairobi has approximately 33 top-rated hotels (3,4 and 5-star) and 4,675 rooms

Name of Establishment	Location	Rating	No of Rooms
Tribe	Kiambu/Limuru Rd	5 star	137.0
Hemingways	Karen	5 star	45.0
dusitD2 Nairobi	Westlands	5 star	101.0
Fairmont The Norfolk Hotel Nairobi	CBD	5 star	170.0
Hilton Nairobi	CBD	5 star	287.0
InterContinental Nairobi	CBD	5 star	326.0
Radisson Blu Nairobi	Upperhill	5 star	271.0
Sankara Nairobi	Westlands	5 star	156.0
Sarova The Stanley Hotel	CBD	5 star	217.0
Serena Nairobi Hotel	Kilimani	5 star	183.0
Villa Rosa Kempinski Nairobi	Westlands	5 star	200.0
Windsor Golf Hotel & Country Club	Kiambu/Limuru Rd	5 star	130.0
Fairview	Kilimani	4 star	127.0
House of Waine	Karen	4 star	11.0
Sarova Panafric	Kilimani	4 star	162.0
The Boma	Mombasa Road	4 star	148.0
Weston Hotel	Lang'ata Road	4 star	120.0
Crowne Plaza Nairobi	Upperhill	4 star	206.0
Four Points by Sheraton Nairobi Hurlingham	Kilimani	4 star	96.0
Ole Sereni	Mombasa Road	4 star	134.0
Royal Tulip Canaan Nairobi	Kilimani	4 star	94.0
Southern Sun Mayfair Nairobi	Westlands	4 star	171.0
The Lazizi Premiere	Mombasa Road	4 star	144.0
Clarion Hotel	CBD	3 star	62.0
Marble Arch	CBD	3 star	40.0
Panari	Mombasa Road	3 star	136.0
Sarova Portico the Zehneria	Westlands	3 star	56.0
Ngong Hills Hotel	Kilimani	3 star	110.0
Best Western Plus Meridian Hotel	CBD	3 star	128.0
Golden Tulip Westlands Nairobi	Westlands	3 star	94.0
Hotel Royal Orchid Azure Nairobi	Westlands	3 star	165.0
Park Inn by Radisson Nairobi Westlands	Westlands	3 star	140.0
Sarovar Portico The Heron	Kilimani	3 star	108.0
Total			**4,675.0**

Source: Tourism Regulatory Authority, STR, Cytonn Research

Hotel Supply in Nairobi: Rated Hotels Distribution by Location

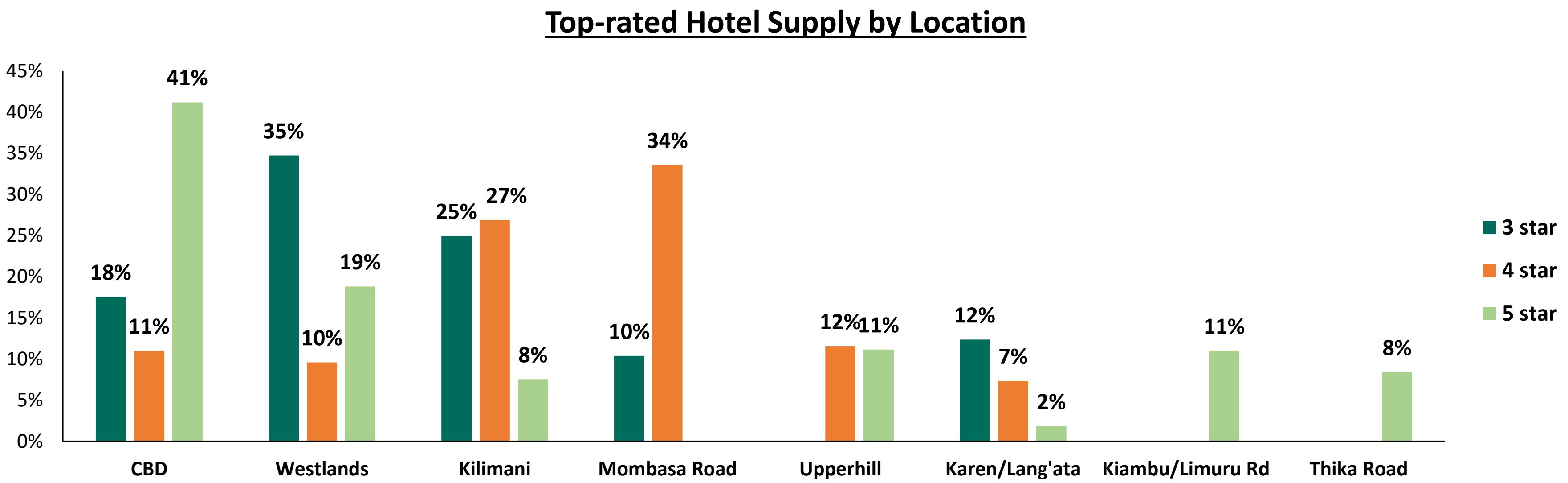
The CBD, Westlands and Kilimani have the highest top-rated hotel rooms in Nairobi



- The Central Business District, Westlands and Kilimani have the largest hotel room supply attributed to their being main commercial hubs, availability of social amenities and having good transport networks
- Kiambu/Limuru Rd and Thika rd have the lowest supply at 4.8% and 3.7% respectively. This is because of the relatively long distance from the CBD and main amenities such as the Jomo Kenyatta International Airport, making them more of residential areas. Locations such as Runda and Karen are also set back by strict zoning regulations that inhibit change of user thus slowing the growth of hotels in these locations

Hotel Supply in Nairobi: Rated Hotels Summary

The CBD has the largest share of 5-star hotel rooms at 41%



- The Central Business District has the highest supply of 5-star hotel rooms with hotels such as Sarova Stanley, Fairmont the Norfolk and Intercontinental all of which are more than 10 years old, built to target local and international corporate clients and government officials when the CBD was the main commercial hub
- There has however been increased supply of 5-star hotels in other commercial nodes such as Westlands at 19.0% market share and Upperhill at 11% as firms increasingly move away from the CBD
- Westlands has the largest market share of 3-star hotels at 35% mainly to serve corporates, expatriates and business travellers with affiliates in companies and NGOs in the locality
- Mombasa Rd has the largest market share of 4-star hotels at 34% targeting tourists, clients on transit and business travellers as well

Hotel Supply in Nairobi: Deal Pipeline

We project an addition of 2,945 top-rated hotel rooms in Nairobi in the next 5 years

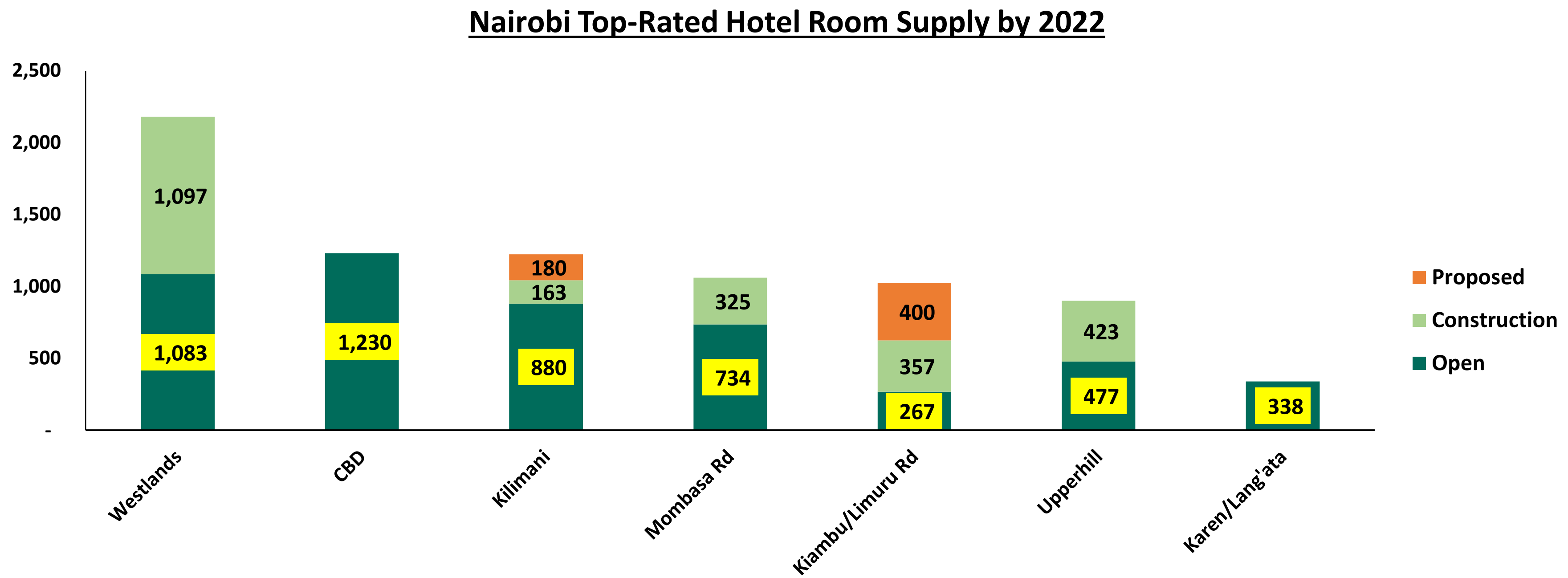
Name	Location	Rooms	Year of Completion
Avic Towers	Westlands	365	2020
Pullman	Westlands	340	2018
Pinnacle	Upperhill	255	2020
Movenpick	Westllands	223	2017
Grenadier	Kiambu/Limuru Rd	200	2020
Paddock Runda	Kiambu/Limuru Rd	200	2020
Green Hotel	Kiambu/Limuru Rd	187	2017
Cytonn Towers	Kilimani	180	2020
Hilton Garden Inn	Mombasa Rd	171	2017
City Lodge	Kiambu/Limuru Rd	170	2017
Montave	Upperhill	168	2018
Ole Sereni	Mombasa Rd	154	2018
Radisson Residence	Kilimani	123	2018
Cocord Hotel	Westlands	86	2017
The Alba	Westlands	83	2019
Serena	Kilimani	40	2018
Total		**2,945**	

- There are 16 hotels in the pipeline that will supply approximately 2,945 hotel rooms
- Avic Towers will have the highest number of rooms at 365

Cytonn
REAL ESTATE

Hotel Supply in Nairobi: Deal Pipeline

Westlands and CBD will have the highest top-rated hotel room supply in the next 5 years



- In the next 5 years, Westlands will have the highest supply of hotels with 5 hotels currently under construction including Movenpick with 223 rooms, JW Mariott at Avic Towers with 365 rooms and Pullman with 340 rooms
- Kilimani will also have a high supply with 2 hotels under construction ie Radisson Residence with 123 rooms, Serena Hotel adding 40 more rooms and Cytonn Towers set to build 180 hotel rooms
- Karen/Lang'ata area will have the lowest supply as there are currently has no hotels in the pipeline

**Proposed refers to planned hotels that are yet to break ground*

ii). Hotel Operators & Brands

Hotel Operators & Brands: Local

The hotel operators offers both consulting and management services for hospitality investors

- Local hotel operators include;
  i. **Trianum**
    - It is a boutique consulting and management firm
    - They coordinate and direct set up of hotels from concept to actualization including; feasibility studies, market research, operations management and Hospitality Concept Development and consulting
    - Trianum operates Mvuli Suites along Kipande Road and various serviced apartments in Nairobi

  ii. **Tamarind Group**
    - It operates; Carnivore, Simba Salon, Tamarind Dhow, Tamambo, Tamarind Nairobi, Tamarind Mombasa and The Clifftop Terrace

- Local hotel brands include;
  i. **Sarova Hotels, Resorts & Game Lodges**
  ii. **Serena Hotels and Lodges**
  iii. **Sentrim Hotel and Lodges-** Sentrim Tsavo, Sentrim Mara, Sentrim Boulevard, Sentrim Samburu, Sentrim Amboseli

Cytonn REAL ESTATE

Hotel Operators & Brands: International

Radisson Blu, Hilton, Sarovar and Mariott are the dominant international brands in Nairobi

International brands	Operating hotels	Pipeline
Carlson Rezidor	• Radisson Blu, Upperhill • Park Inn, Westlands	• Radisson Residence, Kilimani
Best Western	• Best Western Plus Meridian, CBD	• Best Western, The Alba
Hilton	• Hilton Hotel, CBD • Hilton Double Tree, Hurlingham	• Hilton Garden Inn, Mombasa Rd • Hilton Pinnacle Towers, Upperhill
Mariott International	• Four Points By Sheraton, Kilimani • Four Points by Sheraton, JKIA	• JW Mariott at Avic Towers, Westlands
Accor	• Ibis Styles, Westlands	• Pullman, Westlands
Sarovar	• Lazizi Premier • Zehneria Portico • Heron Portico	
Kempinski	• Villa Rosa Kempinksi	

iii). Hotel Market Performance

Performance: Definition of Terms

Average Published Rate is the average charge from all the room typologies in a hotel

- The following terms are used in the report and will define the analysis:

  i. **Supply (Rooms Available) -** Number of rooms in a hotel or set of hotels multiplied by the number of days in a specified time period
  ii. **Occupancy -** Percentage of available rooms sold during a specified time period. Occupancy is calculated by dividing the number of rooms sold by rooms available.
  iii. **Average Published Rate(APR)-** This is the rate obtained from averaging charges for all the various room types in a hotel
  iv. **Average Daily Rate (ADR) –** Is a measure of the average rate paid for rooms sold, it is calculated by dividing room revenue by rooms sold.
  v. **Revenue-** Total room revenue generated from the guestroom rentals or sales
  vi. **Revenue Per Available Room (RevPAR) -** Total room revenue divided by the total number of available room

Cytonn REAL ESTATE

a). Overall Nairobi Hotel Performance

Performance: Nairobi Summary

The room supply in Nairobi has been increasing at a 6.4% CAGR of the last 5 years

Year	2012	2013	2014	2015	2016	2017	CAGR	2016/17
Average Daily Rate (USD)	13,305	12,969	12,766	14,026	13,909	12,952	**(0.7%)**	(6.9%)
Room Occupancy Rate (%)	63%	59%	54%	53%	53%	49%	**(6.1%)**	(7.5%)
RevPAR (USD)	8,319	7,594	6,816	7,449	7,308	6,317	**(6.7%)**	(13.6)%
International Arrivals ('000')	1,702	1,520	1,350	1,181	1,340	1,423	**(4.4%)**	6.2%
Approx. Room Supply ('000' nights)	1,543	1,856	1,926	1,751	1,828	1,981	**6.4%**	8.4%

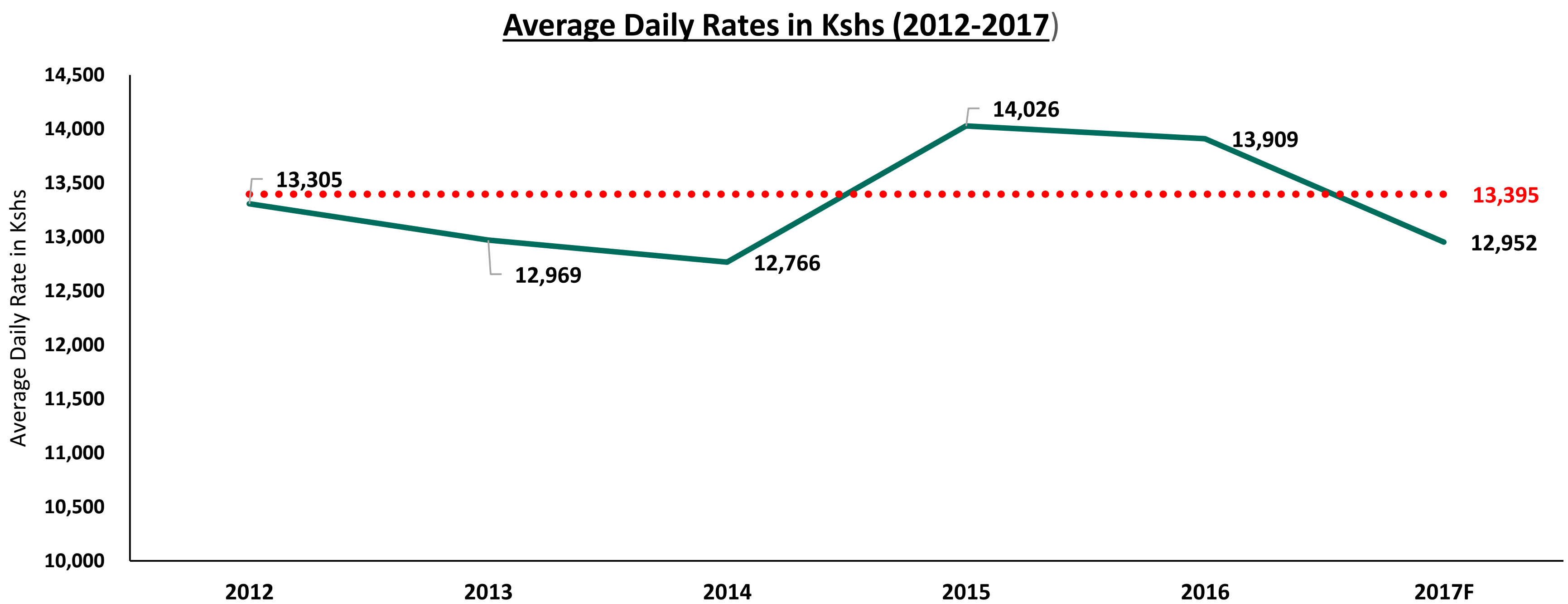
**Performance of 3,4 and 5-star hotels only*

- Over the past 5 years the performance of the hospitality sector in Kenya has been on the decline with daily rates, occupancy levels and revenues declining with CAGRS of 0.7%, 6.1% and 6.7%, respectively as a result of increasing room supply and insecurity which led to reduced demand
- In 2016, however, there was marginal growth as international arrivals increased by 13.5% while room occupancy remained stable at 53.0%, indicating chances of recovery of the sector
- In 2017, the sector has been constrained by political tension which resulted in cancellation and post-ponement of visits resulting in a decline of occupancy to 49%
- The 8.4% growth in room supply indicates positive sentiments from investors as they seek to cash in on the sector, undeterred by the previous decline in performance

Source: KNBS, STR, Cytonn Research

Performance: Average Daily Rate

The Average Daily Rate in 2017 has declined to Kshs 12,952 from a 5-year average of Kshs 13,395

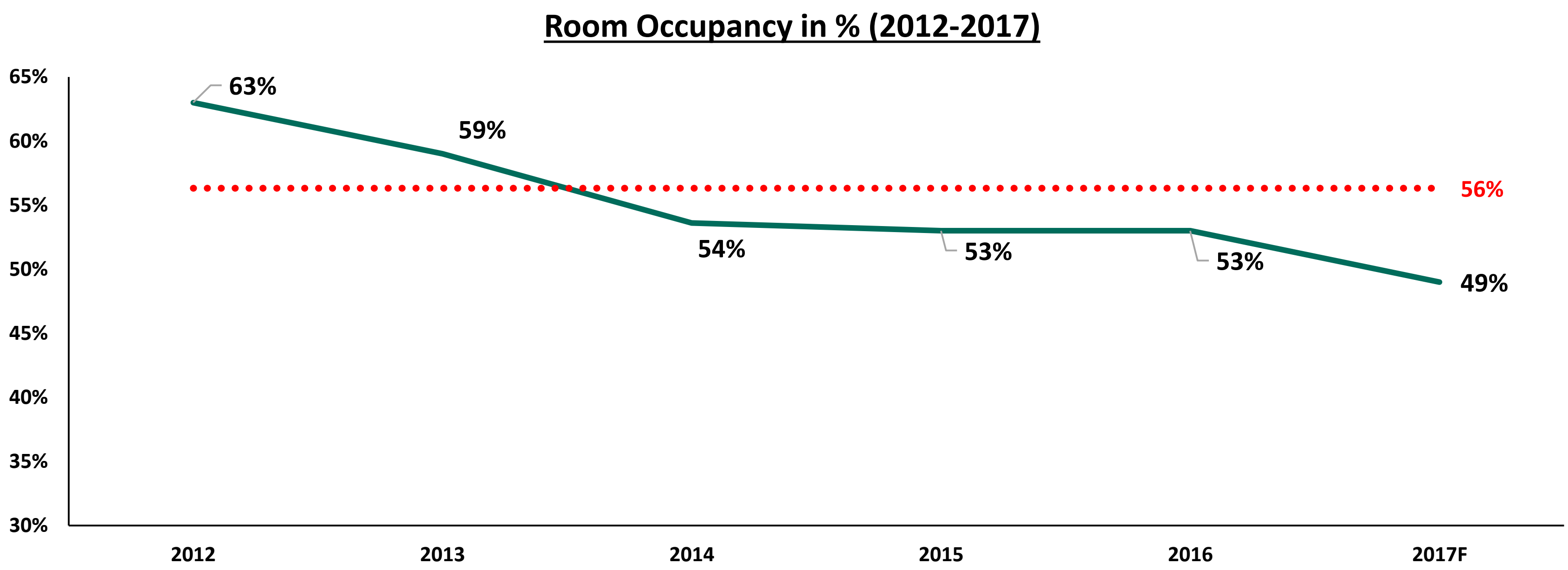


- The average daily rate has grown by 1.1% p.a between 2012 and 2016 averaging at Kshs 13,395
- The growth experienced mainly in 2015 and 2016 was due to improved security in the country
- In 2017, there was a slight decline in ADR due to the effects of the extended electioneering period which impacted the sector as seen through the 7.4% decline in international arrivals in August 2017
- Average Daily Rates were also partly affected by the depreciation of the Kenya shilling in 2017 currently trading at kshs 103.0 to the dollar down from Kshs 100.0 as at 31st December 2016

Source: Cytonn Research, STR

Performance: Occupancy

Occupancy in 2017 has declined to 49% from a 5-year average of 56%



- Average occupancy rates in Nairobi has been 56% between 2012 and 2016
- While the market declined between 2012 and 2014 due to security concerns and negative travel advisories, the market stabilized in 2015 and 2016 with 53% occupancy
- In 2017, there was a slight decline attributable to the electioneering period that has resulted in post-ponement and cancellation of visits thus reduced occupancies from an average of 50.2% during H1/2017 to an average of 45.9% during H2/2017

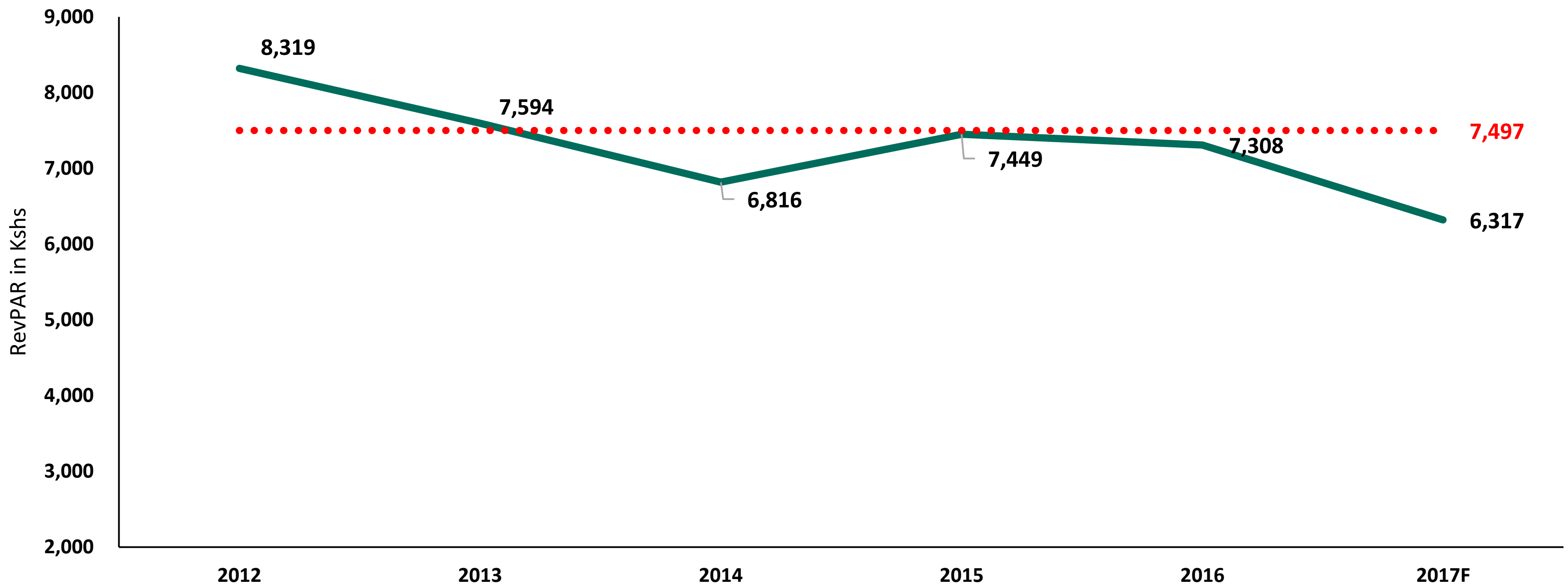
Source: Cytonn Research, STR

Cytonn REAL ESTATE

Performance: Revenue per Available Room (RevPAR)

The average RevPAR in 2017 has declined to Kshs 6,317 from a 5-year average of Kshs 7,497

RevPAR in Kshs (2012 and 2017)



- RevPAR is a measure of revenue management and indicates revenues generated for every available room
- RevPAR has declined by 3.2% p.a between 2012 and 2014 mainly due to reduced hotel occupancy during this period
- In 2017, there was a decline in the same due to a decline in hotel occupancy and revenues especially during the 2nd half of 2017 with an average occupancy of 45.9% from 50.2% during H1/2017

Source: Cytonn Research, STR

b). Performance By Hotel Rating

Performance: Average Published Rates

The average published charge rate for a 5-star hotel room is Ksh 24,277

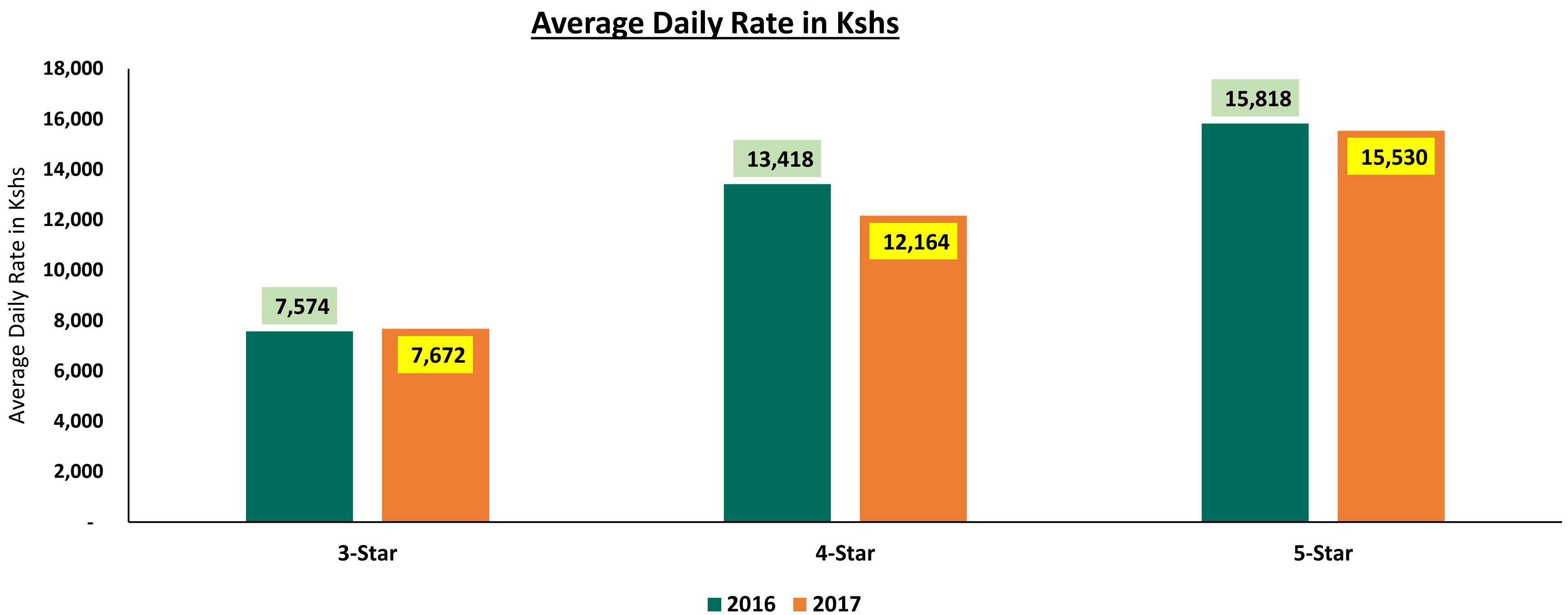
Hotel Rating	Average Published Rate (Kshs)	Average Published Rate (USD)	Average Conference Rate (Kshs)	Average Conference Rate (USD)
5-Star	24,227	234	4,171	40
4-Star	16,395	159	4,347	42
3-Star	14,199	137	3,943	38
Average	**18,274**	**177**	**4,154**	**40**

- The table summarises the average published rates for the various rated hotels in Nairobi
- The average rate for 5-star, 4-star and 3-star hotels is Kshs 24,227 , Kshs 16,395 and Kshs 14,199 , respectively
- The average full-day conference rate inclusive of meals is Kshs 4,154

Source: Cytonn Research

Performance: Average Daily Rate

ADR has declined by 3.3% from 2016 to 2017 due to reduced rates over the elections period

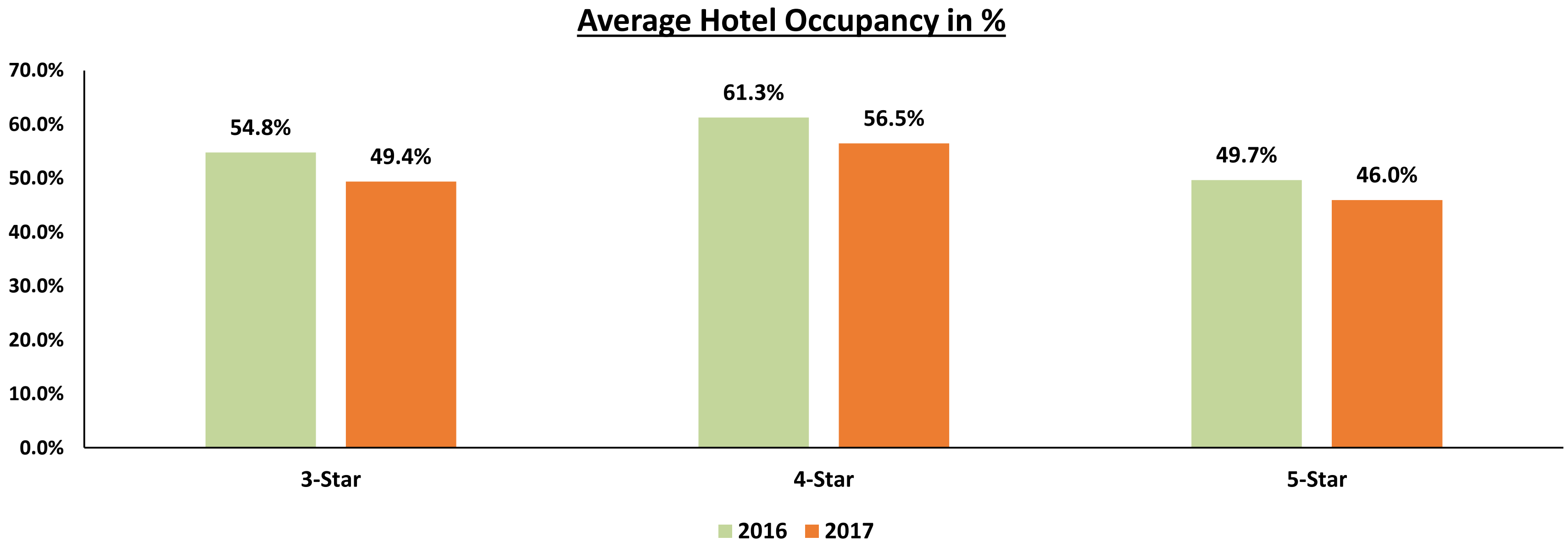


- The Average Daily Rate in 2017 was Kshs 7,672 , Kshs 12,164 and Kshs 15,530 for 3-star, 4-star and 5-star hotels in Nairobi, respectively
- The 3.3% decline in ADR from 2016 to 2017 is attributed to reduced rates per room sold during the extended electioneering period as well as the effects of the depreciation of the Kenya Shilling to the Dollar
- In 3-star hotels a slight increase in ADR is expected due to the opening of Park Inn by Radisson in 2017 with premium facilities and charges

Source: Cytonn Research, STR

Performance: Occupancy

4-star hotels are the best-performing with 56.5% average occupancy in 2017

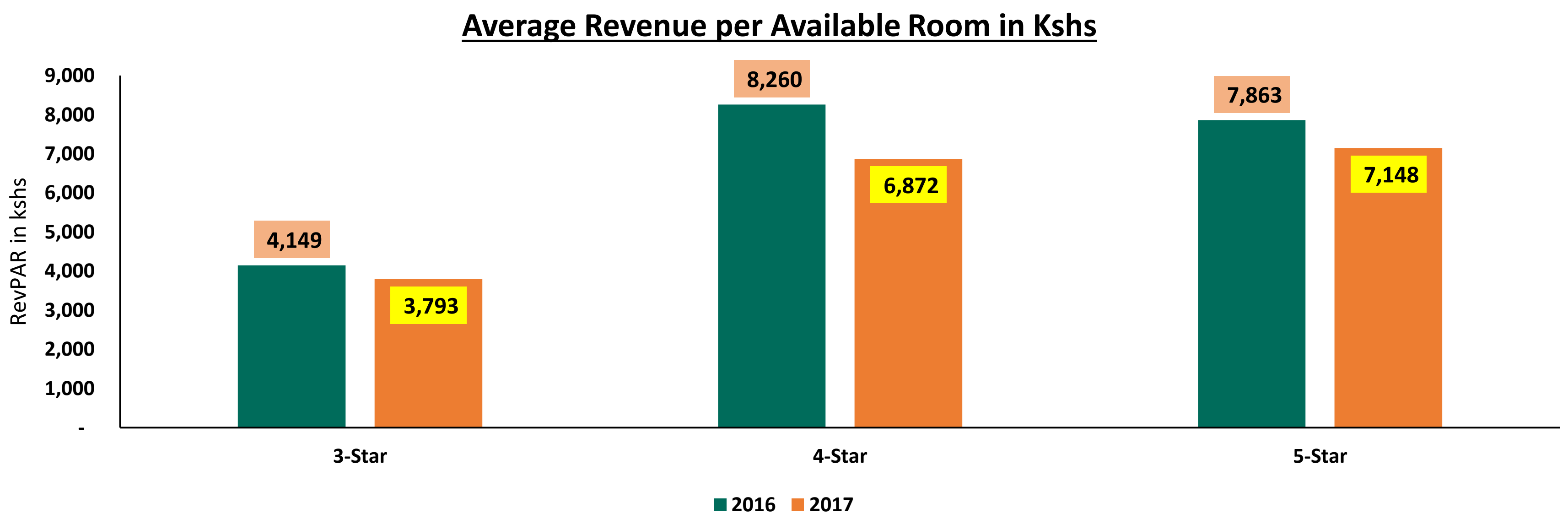


- The Average Occupancy in 2017 was at 49.4% , 56.5% and 46.0% for 3-star, 4-star and 5-star hotels in Nairobi, respectively
- Hotel Occupancy has declined by 4.6% in 2017 due to reduced number of guests during the electioneering period as well as increased room supply as seen through opening of 4 top-rated hotels; Lazizi Premiere (4 star), Park Inn by Radisson (3 star) and Four Points by Sheraton near JKIA (4 star)

Source: Cytonn Research, STR

Performance: RevPAR

RevPAR was Kshs 3793, Kshs 6872 and Kshs 7148 for 3-star, 4-star and 5-star hotels, respectively in 2017



- The Average RevPAR in 2017 was Kshs 3,793 , Kshs 6,872 and Kshs 7,148 for 3-star, 4-star and 5-star hotels in Nairobi, respectively
- RevPAR has declined by 11.5% in 2017 due to increased hotel room supply and reduced international arrivals in H2' 2017 which resulted in reduced room occupancy and reduced room rates

Source: Cytonn Research, STR

Performance: Summary

4 star are the best performing mainly due to high occupancy of 56.5% in 2017

2017	Occupancy	APR (Ksh)	ADR(Ksh)	Charge Discount (ADR/APR)	RevPAR (Ksh)
3 Star	49.4%	14,199	7,672	(46%)	3,793
4 Star	56.5%	16,395	12,164	(26%)	6,872
5 Star	46.0%	24,227	15,530	(36%)	7,148
Average	**50.6%**	**18,274**	**11,789**	**(36%)**	**5,937**

- 4-star hotels are the best performing hotels in Nairobi due to the following
  i. The average occupancy in 2017 is 56.5% compared to the market average of 50.6% indicating that 4-star hotels are better to fill their rooms at the set prices
  ii. The average daily rate is 26% lower than the average published rate indicating more income per occupied room compared to the market average of 36%
- 5-star hotels are the poorest performing due to the following;
  i. The average occupancy in 2016/17 is 46.0% compared to the market average of 50.6% indicating that 5-star hotels are less able to fill their rooms at the prices set and thus require to charge lower rates to increase occupancy

Source: Cytonn Research, STR

Cytonn REAL ESTATE

B). Serviced Apartments in Nairobi

i). Overview

Serviced Apartments: Overview

Serviced apartments are attractive to investors as they have relatively longer tenancy compared to hotels

- **Definition :** A serviced apartment is defined as a fully furnished apartment that is available for both short term and long term stays providing all the hotel like amenities and services
- Serviced apartments have become increasingly popular in the market, with Nairobi alone having more than 60 brands of serviced apartments with more than 3,000 apartment units
- Serviced apartments have increased in supply over the last five years with a CAGR of 23.6%. This has largely been boosted by a number of factors including:
    - i. **Lower Operating expenses as compared to hotels** – this is as serviced apartments have lower staff requirements and lower ancillary costs for foodstuff and amenities hence cheaper to run
    - ii. **Relatively longer tenancy compared to hotels** – the clientele for serviced apartment prefer long stays (over 3 months) as opposed to those who book hotels rooms thus have more stable incomes
    - iii. **Higher demand** – due the lower charges over the long-run, serviced apartments are in high demand hence the high occupancy levels
    - iv. **Convertibility-** it is easy to convert serviced apartments to normal unserviced apartments in the case where the former are not performing well
    - v. **Product offering-** It is possiblee to offer 2 different products depending on the needs of the client i.e furnished apartments only or furnished and serviced apartments

Cytonn REAL ESTATE

Serviced Apartments: Factors Driving Demand

Serviced apartments are attractive to guests as they charge lower rates and provide larger living spaces

i. **Lower rates** – a standard 3-star hotel in Nairobi charges on average Kshs 14,000 per night for a suite while a studio serviced apartments charges on average Kshs 8,000 per night while a 1-bedroom apartment charges on average Kshs 11,000 per night

ii. **Home away from home feel** – Unlike a hotel, a serviced apartment not only looks like a home it also allows someone to cook and can easily accommodate a family hence creating the home away from home experience that is sought after by many travelers

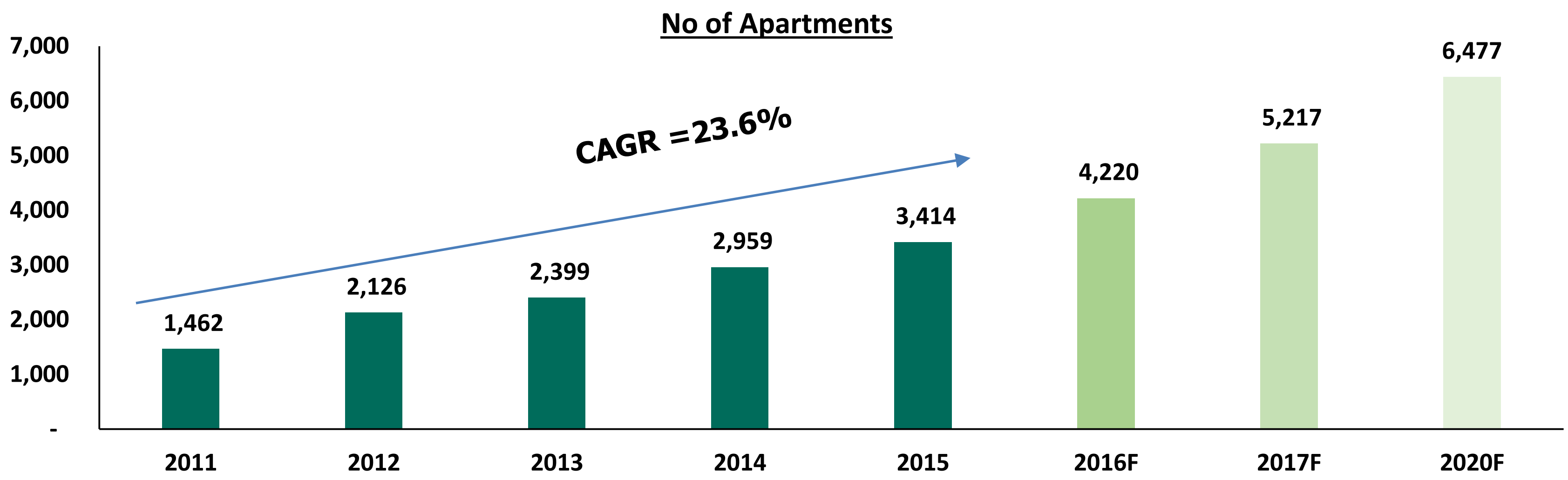
iii. **Bigger spaces**- Serviced apartments often have bigger sizes than hotels. In Nairobi, while the standard hotel room size is 30-50 square metres , the average size of serviced apartments is 75 square metres for 1-bedroom units, 110 square metres for 2-bedroom units and 140 square metres for 3-bedroom units

iv. **Easy integration** - serviced apartments are located near other residential developments hence guests are able to integrate with the community

ii). Supply and Distribution

Serviced Apartments: Supply in Nairobi

Serviced apartments in Nairobi have recorded a high growth rate of 23.6% between 2011 and 2015



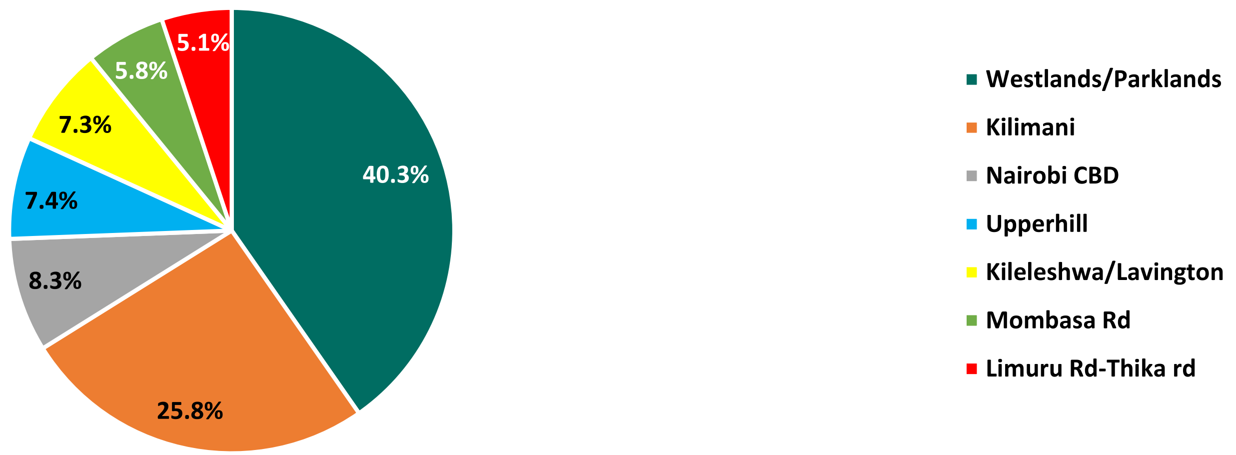
- The serviced apartments segment is the fastest growing segment in the hospitality industry and in Nairobi with a 23.6% CAGR over 5-year period to 2015
- This growth has been boosted by their relative affordability and homely feel compared to hotels
- As at 2015, there were approximately 3,414 serviced apartments units in Nairobi
- Assuming the trend remains, we project a supply of 5,217 apartments in 2017 with an additional 1,220 apartments set for completion by 2020

Source: HVS 2015, Cytonn Research

Serviced Apartments: Distribution by Location in Nairobi

Westlands & Kilimani have the highest supply of serviced apartments with a combined market share of 63%

Serviced Apartments Market Share

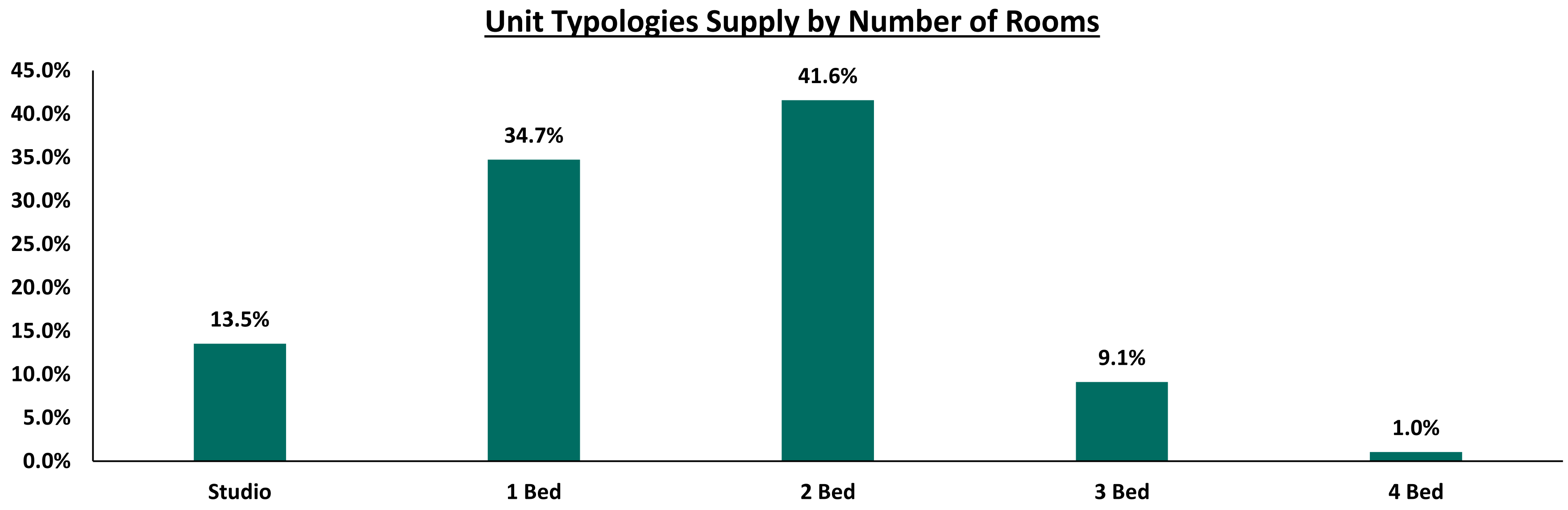


- Westlands and Kilimani have the highest supply of serviced apartments and rooms at 40.3% and 25.8% respectively of the total market share
- This is due to their close proximity to office nodes and the expatriate community who constitute the majority of serviced apartments clientele
- Despite Upper hill having the same advantages the supply is low and hence presents an opportunity for investments in the area
- Limuru Rd and Kiambu Road have the least supply, with a market share of only 5.1%, but the supply is increasing as more developments target the expatriates in the region

Source: Cytonn Research

Serviced Apartments: Distribution by Typology in Nairobi

2-bed and 1-bed units are the most common with 41.6% and 34.7% share, respectively



- 2-bed units and 1-bed units are the most common units in the market with 41.6% and 34.7% market share respectively
- They are the most popular as they target people with families (2 bed), couples and individuals (1 bed)
- Studio units are in higher supply than 3-bed and 4-bed apartments

Source: Cytonn Research

Cytonn REAL ESTATE

Serviced Apartments: Deal Pipeline

At-least 1,260 serviced apartments will be complete in the next 5 years, mainly in Kilimani and Westlands

Name	Developer	Location	Number of Units	Completion
Skynest	Elegant Properties	Westlands	250	2018
Britam	Britam	Kilimani	163	2020
Cytonn	Cytonn	Kilimani	160	2022
Montave	Green-Field	Upperhill	147	2020
9 Oak	Mifta Holdings	Kilimani	120	2019
Cytonn	Cytonn	Westlands	108	2020
Soho	Soho	Kilimani	88	2018
Avic	Avic	Westlands	50	2020
Best Western	Fedha Group	Westlands	48	2016
South Gate Residency	South Gate	Mombasa Rd	40	2018
Gem Suites	Gem Suites	Westlands(Riverside)	38	2017
Ariana	Trianum	Westlands	28	2019
Ole Sereni	Ole sereni	Mombasa Road	20	2018
Hilton (Pinnacle Towers)	Hass Petroleum	Upperhill	Undisclosed	2020
Total			**1,260**	

- We project completion of at least 1,220 serviced apartments in Nairobi in the next 5 years with the largest pipeline in Kilimani and Westlands at 531 rooms and 522 rooms respectively

Source: Cytonn Research

Cytonn REAL ESTATE

iii). Operators & Branding

Serviced Apartments: Operators & Branding

Nairobi has only 1 internationally branded serviced apartments development- Executive Residency

- The serviced apartments market in Nairobi is dominated by individual private operators and management with few branded supply and management in the market
- There is only 1 internationally branded development in the market ie **the Executive Residency by Best Western** opened in November 2016 at Riverside, Westlands
- Other serviced apartments that are under construction and will be managed by international brands are;
  1. Undisclosed number of serviced apartments at Pinnacle Tower in Upperhill **– Hilton Hotels Group**
  2. 50 serviced apartments at Avic Towers in Westlands- **JW Mariott Group**
- Some of the local serviced apartments management companies include;
  1. **Trianum Hospitality** started in 2010- It currently manages Fedha Residences, Executive Residency, Mvuli Suites, Heri Heights, Cozy Residences etc
  2. **Tamarind Group –** manages Tamarind Village Apartments and hotels such as Tamarind Tree Suites, Carnivore, Clifftop Terrace, Tamambo Karen etc
  3. **Unlimited Directions-** manages Spring Valley Gardens and Suite Life
  4. **Karen Inn-** manages Wasini Suites
- As the serviced apartments market matures, however, there will be need for more specialized management thus we are likely to see more branded operators coming in

iv. Performance

Performance: Introduction

The scope of the research was over 2,600 apartments in the entire Nairobi market

- The scope of the research was the entire Nairobi market which captured over 70 developments and over 2,600 apartments provided
- The aim of the research was to guide on development of serviced apartments considering the following;
  i. Existing Supply: unit typologies and sizes
  ii. Charged Rates: daily, weekly and monthly rates
  iii. Occupancy Rates
  iv. Rental Yields
- The research scope was in the following zones in CBD
  i. Westlands/Parklands: Includes developments in Westlands, Parklands and Riverside
  ii. Kilimani: Includes developments in Milimani, State house area and Hurlingham
  iii. Nairobi CBD: Includes developments within the Central Business District
  iv. Upperhill
  v. Kileleshwa & Lavington
  vi. Mombasa Rd: Includes developments in South C, Imara Daima and Embakasi
  vii. Limuru Rd: Includes developments in Gigiri, Rosslyn & Runda
  viii. Thika Rd: Includes developments in Muthaiga North, Thome, Garden Estate & Roysambu

Performance: Market Summary

Apartments in Westlands and Kilimani charge the highest rates due to their proximity to prime commercial hubs

All figures in kshs unless stated otherwise

		Plinth Areas in Square Metres				Monthly Charges in Kshs				
Node	Market Share	Studio	1 Bed	2 Bed	3 Bed	Studio	1 Bed	2 Bed	3 Bed	Charge per SM
Westlands/Parklands	40.4%	33	85	115	177	155,005	174,742	217,323	345,250	2,518.7
Kilimani	25.9%	39	69	110	149	136,633	198,939	226,158	289,869	2,592.1
Nairobi CBD	8.3%	60	90	115	140	120,000	135,000	187,000	225,000	1,684.4
Upperhill	7.4%	36	75	110	156	130,000	160,000	211,438	259,775	2,333.0
Kileleshwa/Lavington	7.3%	38	78	123		116,546	175,000	220,000		2,368.8
Mombasa Rd	5.8%		90	107	151		189,000	111,000	145,000	1,367.4
Limuru Rd	1.8%	73	120	120	173	98,719	162,811	257,028	323,855	1,685.6
Thika rd (Muthaiga N)	3.1%	64	70	100	144	55,000	75,000	87,500	120,000	909.8
Average		**49**	**85**	**112**	**156**	**115,986**	**158,811**	**189,681**	**244,107**	**1,932**
High		**73**	**120**	**123**	**177**	**155,005**	**198,939**	**257,028**	**345,250**	**2,592**
Low		**33**	**69**	**100**	**140**	**55,000**	**75,000**	**87,500**	**120,000**	**910**

- Apartments in Westlands and Kilimani generally have the highest rates per SQM of Kshs 2,518 and Kshs 2,592, respectively in addition to being the nodes with the largest market share
- This is due to their presence in commercial hubs, proximity to social amenities, security and good transport networks
- The average size of units in square metres is 49 SQM , 85 SQM, 112 SQM and 156 SQM for studio, 1 bed, 2 bed apartments, respectively

Source: Cytonn Research

Cytonn REAL ESTATE

Performance: Market Summary

Westlands and Kilimani are the best performing nodes with 7.3% and 7.2% rental yields, respectively

All figures in kshs unless stated otherwise

Node	Market Share	Monthly Charge per SM	Devt Cost per SM	Occupancy 2016	Occupancy 2017	Rental Yield
Westlands/Parklands	40.4%	2,519	209,092	84.6%	77.8%	7.3%
Kilimani	25.9%	2,592	202,662	78.0%	74.0%	7.2%
Kileleshwa/Lavington	7.3%	2,369	206,132	85.0%	70.0%	7.0%
Upperhill	7.4%	2,333	206,711			6.6%
Limuru Rd	1.8%	1,686	231,715	86.7%	80.0%	4.5%
Nairobi CBD	8.3%	1,684	224,571	78.0%	70.0%	4.2%
Mombasa Rd	5.8%	1,367	200,757		64.0%	3.1%
Thika rd (Muthaiga North)	3.1%	910	200,757	78.5%	69.0%	2.6%
Average		**1,949**	**210,300**	**81.8%**	**72.1%**	**5.8%**
High		**2,654**	**231,715**	**86.7%**	**80.0%**	**9.2%**
Low		**910**	**200,757**	**78.0%**	**64.0%**	**2.6%**

**Rental yield assumes 40% operations cost*

- Kilimani and Westlands have the yields as they charge the highest rates per square metre. In addition, apart from 2017 which has been affected by political headwinds, average occupancy has been above 78%
- Both are prime commercial hubs within the UN blue zone and with social amenities, which make them suitable for expatriates living
- Thika rd and Mombasa Road have the lowest yields as they charge the lowest rates per square metre and have low occupancies. Mombasa Road lacks quality serviced apartments developments with most service providers being individuals who therefore lack professional management skills

Source: Cytonn Research

Performance: Serviced Apartments Vs Hotels Comparison

Hotels outperform long-stay serviced apartments with average RevPAR of Kshs 6,347 compared to Kshs 4,515 recorded for serviced apartments in Nairobi

Performance 2016/17	Weight	ADR (Kshs)	RevPAR (Kshs)	Occupancy Rate
3-Star Hotels		7,623.0	3,971.0	52.1%
4-Star Hotels		12,791.0	7,566.0	58.9%
5-Star Hotels		15,674.0	7,505.0	47.9%
Nairobi Hotels Avg		**12,029.3**	**6,347.3**	**53.0%**
Serviced Apartments (Studio)	13.5%	4,124.1	3,161.1	76.7%
Serviced Apartments (1 Bed)	34.7%	5,527.4	4,236.8	76.7%
Serviced Apartments (2 Bed)	41.6%	6,403.9	4,908.6	76.7%
Serviced Apartments (3 Bed)	9.1%	8,260.1	6,331.4	76.7%
Serviced Apartments Avg (Long Stay)		**5,890.4**	**4,515.0**	**76.7%**
Average for the Hospitality Sector		**8,959.9**	**5,431.2**	**64.8%**

- Top-rated hotels outperform long-stay serviced apartments as the average daily rate is higher than that of serviced apartments
- Serviced apartments, despite having high occupancies generate less revenue per available room at Kshs 4,515 compared to high class hotels at Kshs 6,347
- Serviced apartments, however, outperform 3-star hotels which generate Kshs 3,971 RevPAR

Cytonn REAL ESTATE

Performance: Serviced Apartments Vs Hotels Comparison

Short-stay serviced Apartments outperform hotels with a RevPAR of Kshs 10,224 compared to hotels at Kshs 6,347

Performance 2016/17	Weight	ADR (Kshs)	RevPAR (Kshs)	Occupancy Rate
3-Star Hotels		7,623.0	3,971.0	52.1%
4-Star Hotels		12,791.0	7,566.0	58.9%
5-Star Hotels		15,674.0	7,505.0	47.9%
Nairobi Hotels Avg		**12,029.3**	**6,347.3**	**53.00%**
Serviced Apartments (Studio)	13.50%	7,952.3	6,099.4	76.70%
Serviced Apartments (1 Bed)	34.70%	11,371.4	8,721.9	76.70%
Serviced Apartments (2 Bed)	41.60%	15,683.5	12,029.2	76.70%
Serviced Apartments (3 Bed)	9.10%	19,637.0	15,061.6	76.70%
Serviced Apartments Avg (Short Stay)		**13,330.8**	**10,224.7**	**76.70%**
Average for the Hospitality Sector		**12,680.0**	**8,286.0**	**64.80%**

- Serviced apartments for short-stay out-perform hotels with Kshs 10,224 of RevPAR compared to Nairobi hotels at Kshs 6,347
- An investor may therefore consider developing serviced apartments for clients on transit in areas such as Mombasa road to compete with hotels in the area

V). Hotel Market Investment Opportunity

Cytonn REAL ESTATE

Hospitality Market Opportunity

Metrics such as supply, incoming supply, presence of a commercial hub, location in a UN Blue Zone, transport network and yields have been used to gauge the opportunity

- To identify the investment opportunity in the sector and single out the specific locations that would be best to invest in, we used the following metric for hotels;
    1. **Current Supply-** This refers to the existing hotel rooms stock. The higher the stock, the lesser the points awarded
    2. **Incoming Supply-** This refers to hotel rooms under construction. The higher the pipeline, the lesser the points awarded
    3. **Presence of a Commercial Hub-** This refers to availability of a commercial catchment area who serve as the clients
    4. **Presence in a UN Blue Zone-** These are areas marked by the United Nations as suitable for living as they adhere to UN set standards on security, facilities, amenities, access ways, recreational facilities etc. Areas in the UN Blue zone have higher points
    5. **Transport Network-** This is to establish the ease of access within the location. Areas with easy accessibility have higher points
    6. **Yields (serviced apartments)-** This is to establish the potential returns in a location. The higher the yields, the higher the points awarded

Hospitality Market Opportunity: Metrics

Areas have been allocated points from 1 to 3, with 3 being the highest points

- The following shows the points allocated for each metric
- Areas have been allotted points from 1 to 5, with 5 being the highest points. The higher the points, the better an area is for investment

Hospitality Market Opportunity					
Supply (% of market share)	**>20%**	**15%-19%**	**10%-14%**	**5%-9%**	**<5%**
Points	1	2	3	4	5
Incoming Supply (% of market share)	**>20%**	**15%-19%**	**10%-14%**	**5%-9%**	**<5%**
Points	1	2	3	4	5
Commercial Hub	**Low-scale**	**Lower-scale**	**Mid-scale**	**Upper-scale**	**High-scale**
Points	1	2	3	4	5
UN Blue Zone	**Area is not in the blue zone**		**Partially in the blue zone**		**Area is in the blue zone**
Points	1		3		5
Transport Network	**Poor**	**Less than Avg**	**Average**	**Good**	**Very Good**
Points	1	2	3	4	5
Yield (serviced apartments)	**<2%**	**2%-4%**	**5%-7%**	**7%-9%**	**10% and above**
Points	1	2	3	4	5

Hospitality Market Opportunity: Hotels

Upperhill and Kilimani are the top areas for investment as they are main commercial hubs, with a good transport network and within the UN Blue zone. Kiambu/Limuru rd is also viable as it is in the blue zone and has low supply

Weights	**20%**	**20%**	**30%**	**20%**	**10%**		
Location	**Supply**	**Pipeline**	**Commercial Hub**	**UN Blue Zone**	**Transport Network**	**Points**	**Rank**
Upperhill	4	3	5	5	5	4.4	1
Kilimani	2	3	4	5	5	3.7	2
Kiambu/Limuru Rd	5	5	2	5	4	4.0	2
Westlands	2	1	5	5	5	3.6	4
Thika Rd	5	5	2	3	4	3.6	4
Nairobi CBD	1	5	5	1	5	3.4	6
Karen/Lang'ata	4	3	3	3	5	3.4	6
Mombasa Rd	3	3	3	1	5	2.8	8

- For hotels we allotted the highest weighting to commercial hub and areas in the UN blue zone. This is because they are attractive to hotel guests due to easy accessibility to corporate offices, social amenities and due to security
- We also allotted high weighting to areas with low supply and stock in the pipeline as the competition is relatively lower than areas which have a high existing supply
- Upperhill area is most viable for investment as it is a commercial hub, within the UN blue zone yet it has only 8.6% share of the existing hotel room stock. The main challenge with Upperhill is availability of social amenities such as shopping centres hence investors ought to consider mixed use developments that will provide the requisite social amenities
- Mombasa Rd is the least viable area for investment as it is an industrial area and is not within the the UN Blue Zone

Hospitality Market Opportunity: Serviced Apartments

Upperhill, Kileleshwa & Lavington are the best areas to invest in serviced apartments as they have relatively low supply with 7.4% and 7.3% market share, respectively and have relatively high yields of 6.6% and 7.0%, respectively

Weights	25%	20%	20%	10%	25%		
Location	**Supply**	**Commercial Hub**	**UN Blue Zone**	**Transport Network**	**Yield**	**Points**	**Ranking**
Upperhill	4	5	5	5	3	4.3	1
Kileleshwa/Lavingtom	4	3	5	5	4	4.1	2
Westlands	2	5	5	5	4	4.0	3
Kilimani	2	4	5	5	4	3.8	4
Limuru Rd	5	2	5	4	2	3.6	5
Muthaiga North/Garden Estate	5	2	4	4	1	3.1	6
Nairobi CBD	4	4	1	4	2	2.9	7
Mombasa Rd	3	3	1	5	1	2.3	8

- For serviced apartments we allotted the highest weighting to areas with low supply and with the highest yields to an investor. For an investor, these areas record high yields as they can achieve higher rates per square metre and maintain high occupancy
- We also allotted high weighting to areas in commercial hubs and areas in the UN Blue zone as they attractive to guests who prefer convenience in terms of a short commute distance to work, and are considered conducive for living by the UN
- Upperhill area is most viable for investment as it is a commercial hub, within the UN blue zone yet it has only 7.4% share of the existing serviced apartments stock
- Kileleshwa/Lavington area is also suitable for investment as it has relatively high rental yields of 7.0% and has a low market share of 7.3% of serviced apartments

VI). Conclusion & Outlook

Hospitality Market Conclusion and Outlook

Investment opportunity in the sector lies in 4-star hotels in Nairobi locations such as Upperhill, Kilimani, Kiambu/Limuru rd and serviced apartments in Upperhill, Lavington and Kileleshwa

Measure	Sentiment	Outlook
Hotels Market Performance	Occupancy rates and earnings increased in 2016 by 1.2% and 17.8% indicating recovery of the sector. In 2017 the market has been affected by political tension but only temporarily. We expect the market to recover in 2018 with the increase in international arrivals noted in H1'2017 indicating sustained demand for business and travel tourism	Positive
Serviced Apartments Performance	Serviced apartments had a high average occupancy of 81.8% in 2016 but has recorded declined occupancy in 2017 due to political tension. The sector is likely to recover with the conclusion of the elections	Positive
Supply	Hotel room supply has been increasing at a 5-year CAGR of 3.6% while serviced apartments have increased by 23.6% while room occupancy during the period has declined by 4.2%. At least 4,675 hotels rooms and 1,260 serviced apartments are set to be complete in the next 5 years, and thus likely to increase competition	Negative
Domestic Tourism	Domestic tourism grew from 46.9% of total bed nights in 2014 to 54.2% of total bed nights in 2016 and is expected to continue due to increased government incentives	Positive
International Tourism	International arrivals grew by 13.4% in 2016 and is expected to increase by 6.2% in 2016 given improved security and the increased marketing efforts by the government and the industry players	Positive
MICE Tourism	Local MICE tourism grew by 17.4% faster than international MICE tourism at 4.1%. Growth in the sector is boosted by devolution and increased demand for conference by corporations and groups	Positive
Opportunity	There is an opportunity in 4-star hotels in Nairobi as they are the best performing with occupancy of 56.5% in 2017. On location, Upperhill, Kilimani and Kiambu/Limuru rd are the most viable for hotel investment. For serviced apartments, Upperhill, Lavington and Kileleshwa are the most viable for investment	Positive

Cytonn REAL ESTATE

Thank You!

For More Information

- **Free Real Estate & Market Research:**

www.cytonnreport.com

- **Follow on Twitter @CytonnInvest**
- **On Facebook: Cytonn Investments**

Cytonn
REAL ESTATE

Appendix

Classification of Hotels

A five star hotel building should be completely detached from other buildings

Three Star Hotel

- Building should have separate entry for goods and services
- Minimum size of public rooms should not be less than an aggregate of 1 sq. m. per guest bed
- At least One large room of not less than 75 sq. m. comfortably furnished, sound proofed, and well maintained for the reception
- At least one restaurant whose total seating capacity should be at least 40% of the bed capacity.
- Minimum Size of a hotel room should be 15 sq. m
- At Least 50% of the rooms should have balconies

Four Star Hotel

- Building should be semidetached from other buildings, with separate entries for goods and people
- Minimum size of public rooms should not be less than an aggregate of 1½ sq. m. per guest bed
- Should have at least one large room of not less 75 sq. m. and at least two smaller Ones, both carpeted, well lit and maintained for the reception
- At least two restaurants plus a coffee shop. Total seating capacity should be at least 80% of the bed capacity
- Minimum size of a hotel room should be 20 sq. m
- At Least 70% of the rooms should have balconies

Five Star Hotel

- The whole building should be completely detached from other buildings with separate entry for goods and service
- Minimum size of public rooms should not be less than an aggregate of 2 sq. m. per guest bedroom
- Should have at least one large room of not less 75 sq. m. and at least two smaller Ones, both carpeted, well lit and maintained for the reception with high quality audio-visual and internet facilities
- A minimum of two restaurants offering different cuisine and services. Rich a la carte Menu should be available
- Minimum size of a hotel room should be 25 sq. m
- all rooms should have balconies